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FARM MORTGAGES AND TENANCY

As of January 1, 1936, there were approximately 6,800,000 farms in the United States. Of this number it is estimated that 2,300,000 or 34 percent were mortgaged and 4,500,000, or 66 percent were not mortgaged.

The total farm mortgage debt was approximately \$7,500,000,000. Of this amount \$2,853,966,000 or 38 percent was held by the Federal land banks and Land Bank Commissioner. The average debt per mortgaged farm was \$3,300.

The estimated total value of all the farms mortgaged was \$13,600,000,000. The debt against these farms was \$7,500,000,000 or 56 percent of the value placed on them on January 1 this year. The average value of farms mortgaged was \$5,900 each; the average value of all farms not mortgaged was \$4,300.

During periods of high income, the farm mortgage debt in the United States increases; during depressions it shrinks. The mere increase in sales during periods of higher income and higher prices for farms naturally would result in more mortgage debt. During depression periods the shrinkage in debts is caused partly by smaller mortgages being taken in connection with sales and some washing out of creditors.

In 1928 (Jan. 1) the farm mortgage debt had reached its peak -- \$9,468,000,000. In 1930 it was \$9,241,000,000; in 1933, \$8,500,000,000; in 1935, \$7,770,000,000; in 1936, \$7,560,000,000. The first three years quoted are United States Department of Agriculture figures and the last two are estimates by the Farm Credit Administration.

A decrease has occurred in recent years in the percentage of gross farm income required for interest on mortgage debt. The following table shows gross farm income interest on farm mortgage debt, and percent of gross income required for interest on the mortgage debt in the United States for the 1926-35 period:

Year	Gross Farm income	Interest on Farm Mortgage Debt	Per cent of Gross Farm Income Required for Interest on Mortgage Debt
	(Million dollars)	(Million dollars)	Per cent
1926	11,480	568	4.9
1927	11,616	568	4.9
1928	11,741	563	4.8
1929	11,941	554	4.6
1930	9,454	548	5.8
1931	6,968	528	7.6
1932	5,337	511	9.6
1933	6,406	442	6.9
1934	7,266	400 ^{1/}	5.2
1935	8,110 ^{1/}	370 ^{2/}	4.5

^{1/} Preliminary

^{2/} Tentative estimate, based on percent change in index numbers of interest payable on farm mortgages as reported by the Bureau of Agricultural Economics.

A farm which is mortgaged is a mortgaged farm whether it is operated by the owner (full or not full) or a tenant. Not all farms operated by tenants are mortgaged. The frequency of mortgage debt on all farms in the United States and on farms operated by full owners, part owners and tenants, in 1928 was as follows: All farms (including manager operated farms), 36 percent; full owner-operated, 34.7 percent; part-owner-operated, 48.5 percent, and tenant-operated farms, 34.8 percent.

The number of farms mortgaged in 1936 (Jan. 1) was 2,300,000, and the figure was not greatly different in 1930.

Tenant farming naturally has increased as the country has grown older (since 1880) and free land is a thing of the past. A certain amount of tenant farming, provided that it does not reach unreasonable proportions, may not present a serious situation.

The 1935 census shows that 42.1 percent of all "active" farms, or 2,865,000, are operated by tenants. More than half a million farmers rent land for cash and about 689,000 own part of their land and rent additional acreage. The percentage is already rather high.

It is stated on reliable authority that the percent of tenancy in Belgium is 54, and that it is 29 percent in Japan, 25 percent in Germany, 26 percent in France, 36 percent in Ireland (popularly thought of as having a big tenant problem), 78.2 percent in Australia, 59 percent in New Zealand, 40 percent in Argentina and about 8 percent in Denmark and Canada.

Tenancy is increasing most rapidly in the rich areas of the United States and declining in the Northeastern and South Atlantic States.

As to swings in farm real estate prices, Governor Wm. I. Myers recently said:

"It is desirable, in fact it is almost necessary, to stabilize credit conditions in agriculture. The policy that we are trying to follow in the making of mortgage loans is to make them on a valuation which can be sustained with the normal earning power of the farmer receiving the loan, taking into consideration the period for which the mortgage runs. We have been carrying out this policy during the period of depression. We have made loans upon the basis of a price level not justified by depressed conditions at the time the loans were made.

"To follow this same policy when, if and as we get into a period of unusual prosperity, we will have to lend on a more conservative basis, recognizing that the amount which can be safely loaned to a farmer depends not on prices and values at the moment or the year that he wants the loan, but those to be expected over the period which the mortgage runs. This latter is the test of a sound loan policy."

Speaking of a permanent system of subsidized credit for agriculture, Mr. Myers cites results in Ireland, as follows:

"You may remember the deplorable land tenure system in Ireland at the beginning of the twentieth century. English landlords who owned the farming land were quite content with their investment and would not sell unless they could re-invest their money in something as safe and at least as remunerative. In other words, they wanted more for their lands than tenants could pay interest on, even though they had been able to borrow the necessary money. Consequently few tenants were able to buy land.

"The British Parliament set out to correct this situation by making it possible for the tenants to buy farms. Under the Land Act of 1903, the British Government provided a fund for making loans to farmers to buy the land they were farming. These loans bore 3 percent interest and were amortized over a period of 68 years. This interest rate was definitely below the rates charged by business institutions. The effect of this interest subsidy over a long period was quite unexpected. Peasants bought the land, but it wasn't long until investors discovered that they could make the farms earn more than the 3 percent interest on the loan, so they began to buy up the rights of the new owners.

"In those fine farming regions of southern Ireland, which I visited in 1926, the right to purchase one of those farms subject to the mortgage which had more than 40 years longer to run, was selling for as much as \$200 to \$250 an acre more than adjoining land without such a mortgage. The so-called 'tenant right,' that is, the right to buy one of these good farms and assume a low-interest-rate mortgage, became a valuable property right which made it just as difficult for the next generation to become land-owners as it had been for the generation prior to the passage of the Land Act of 1903.

"It seems to me the objective of a national farm credit system should be to provide credit equality for agriculture rather than subsidy. The individual needs of our 6 million farmers are small, but, within their resources and the needs of their business, their credit requirements are as sound as those of large corporations."

Farm tenancy tends to increase during periods of inflated land values when it is cheaper to rent than to own. Our system of rentals which ordinarily does not encourage tenants to keep up the fertility of farms and maintain buildings in a proper state of repair, favors tenancy.

To encourage young farmers and tenants to buy farms, the Farm Credit Act was amended in 1935 so as to make Land Bank Commissioner's funds available to lend to farm purchasers.

Formerly, with the exception of lending to farmers who had lost their farms through foreclosure, such loans were confined to refinancing existing indebtedness. Land banks always have been able to lend for farm purchase, but such loans have been limited to 50 percent of the appraised value of the land, plus 20 percent of the insured, permanent improvements.

During recent years, when second-mortgage loan money has not been available, land bank loans (even though made on appraisals not based upon deflated values) have not been adequate to stimulate the purchase of farms. With the aid of a Land Bank Commissioner's loan -- a second mortgage following a land bank loan -- loans may be made up to 75 percent of the appraised value of the property when it cancels all indebtedness against the farm. Commissioner's loans are limited to \$7,500. Commissioner's loans also are made on the security of first mortgages where for some reason the land bank will not make the loan.

Both land bank and Commissioner's loans are made on appraised value. The purchase price may be higher or lower than appraised value. If the purchase price and appraised value should be the same, the purchaser would have to possess at least 25 percent of the price to pay in cash, and it is required that he have some

working capital, tools and workstock and that the buildings be in such state of repair that he will not immediately have to spend from his income to put them in condition. In other words, he should have a reasonable chance of making good.

For some time past, the Farm Credit Administration has been calling attention to the opportunity which tenants now have to become owners -- a better opportunity than for the past decade or more. Not only have tenants found it difficult to purchase, but there are between 350,000 and 400,000 farm boys who reach manhood each year and many of them should be able to purchase farms on reasonable terms. Both interest rates -- 4 to 5 percent -- and periods for which the loans run are now more favorable than ever before. In addition, repayments are easier than in the past.

During the first four months of 1936, \$10,296,000 or 11.7 percent of all land bank and Commissioner loans closed, were to assist in buying farms. In the last three years, over \$77,000,000 has been loaned to redeem farms lost during the depression and to buy new ones.

Increased sales of farms by the Federal land banks also reflect a greater interest in farm purchase, although, of course, all sales have not been made to this class. During the first quarter of this year, all sales totaled 4,277 compared to 2,774 for the same quarter of 1935.

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